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UNCLAS SECTION 01 OF 02 LAGOS 001562

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SUBJECT: SCRATCH CARD FEVER

**¶1.** (SBU) Summary: For the past month, between 5 and 10 million MTN mobile phone scratch cards have been held up in Lagos ports over a payment dispute between MTN and the Nigerian Customs Service. In the country's cash economy and largely wireless telephony environment, scratch cards are an important component of the local telecoms market. MTN has agreed to pay indemnity charges incurred since the dispute started, but will not pay arbitrary/illegal penalties. As the situation gradually clears up, scratch cards are slowly making their way back into the market. In the meantime the Nigerian consumer has been the main loser. End summary.

**¶2.** (U) Pre-paid recharge cards - also known as "scratch cards" - are the most reliable means of payment for Nigeria's estimated 3-4 million wireless subscribers. In a mostly cash based economy, the scratch card system works. Along the streets of Lagos, hundreds of card hawkers sell the pre-paid cards (with a numbered code on the back). MTN's wireless clients buy the cards, scratch off a security strip to expose the numbered code, and call a special phone number and dial in the code to place a call. The prepayment system ensures that telecom companies and consumers alike need not worry about outstanding bills. It is a pay as you go system.

**¶3.** (U) Since early June, MTN scratch cards have been a hot but scarce commodity. Normally, MTN sells 5-10 million scratch cards monthly in Nigeria. Media reports and the current selling price confirm the scarcity of cards on the streets and in MTN stores and distribution ("Friendship") centers. Scratch cards valued at naira (N) 750 are being sold between N800 and N900, and N1500 cards are between N1600 and N1900. Some angry MTN clients believe the shortage is a moneymaking contrivance of MTN. In late June, the National Association of Nigerian Students (NANS), even held a press conference stating that its members are avid phone users and are prepared to "lock up" MTN stores across the country to protest the shortage and higher prices.

**¶4.** (U) Since MTN's customer-base includes top government officials and MTN has the largest mobile network in the country, the GON (including President Olusegun Obasanjo) has noted the card shortage. A recent investigation by the Nigerian Communications Commission (NCC) held MTN responsible for the scarcity. The company was ordered to increase the supply of cards. However, the NCC also noted that millions of MTN cards were being held up in Lagos ports by the Nigeria Customs Service (NCS).

**¶5.** (SBU) During a recent meeting with Econoff and EconSpec, MTN Chief Corporate Affairs Executive, Joke Giwa, said one month's supply of scratch cards is on hold in the Lagos ports. According to Giwa, the shortage began more than a month ago when port officials demanded "other charges" that MTN considered improper. When MTN refused to pay, port officials began delaying paperwork and holding up shipments. The port charges on the consignments have been accumulating with MTN incurring fees totaling N1 billion (\$7.52 million) as of July 23, though the company owes NCS a total of N3 billion (\$22.56 million). Giwa said MTN is willing to pay legitimate government fees like import duties. The company has already paid more than N7 billion (\$52.63 million) in legal taxes and duties since the beginning of 2004.

**¶6.** (SBU) During the NCC investigation, MTN did not blame the NCS but rather told GON officials that production had been on track, that sufficient supplies had been sent to Nigeria, and that the company has documentation to prove it. A review of MTN's documentation and a visit to its warehouses and friendship centers confirmed the hold up was the ports. With the spotlight on the ports, the NCS backed down and has begun to release the scratch cards. Progress has been slow, but the cards are being distributed in Lagos' streets and elsewhere.

**¶7.** (U) Holding press conferences, MTN advised its customers not to pay a premium for the cards. MTN also suggested that its clients take advantage of MTN's new Virtual Top-Up (VTU) system, an electronic recharge service.

**¶8.** (SBU) Comment: South African MTN is an easy target of criticism and unwanted attention in Nigeria. It is the number one mobile service provider in the lucrative Nigerian telecoms market. Its profits from the country are known and reported. As a foreign-owned firm, it is often attacked as an outsider that takes money away from Nigeria. Giwa suggested MTN would welcome another successful international player in the Nigerian GSM market. An additional international presence would deflect attention from MTN and result in more competition and better service to subscribers. End comment.

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